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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST

MAY 15, 1985

Spring 1985 Regional Economic Survey

Our 18th semiannual survey of the region's bankers sheds additional light on the scope and magnitude of farm problems and their impact on lenders. Among other topics, this survey tracks changes in land prices, farm liquidations, loan problems, use of the debt adjustment program and bankers' views on pending farm legislation.

The survey also suggests that, so far, farm problems have had little impact on the Twin Cities economy. Meanwhile, some parts of Northern Minnesota and Wisconsin are braced for continued economic turmoil. Conducted in early April, this survey drew responses from about 600 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wisconsin.

Agricultural Conditions

Still Heading Downhill. Economic conditions have deteriorated since last fall, with little relief in sight. Agricultural problems are expected to persist for several years; conditions are likely to get worse before they get better.

Forty percent of the agricultural bankers classify current economic conditions as fair, 43 percent rate local conditions poor and another 10 percent very poor. Economic conditions appeared the weakest in Iowa, with two-thirds of the bankers calling current conditions poor or very poor. Wisconsin bankers were the most upbeat. One-fourth of these bankers considered current economic conditions good and another 59 percent fair.

Most bankers anticipate no improvement in local economic conditions during 1985. More than one-third of the agricultural bankers are braced for more difficult economic times.

Bankers estimate that one-third of their farm borrowers had negative cash flow in 1984. Their estimates ranged from a low of 10 percent or less for one-fourth of the agricultural bankers to a high of at least 50 percent for another one-fourth of the bankers. The number of farmers with negative cash flow was above average in Montana, Iowa and Nebraska, but below average in Wisconsin and North Dakota.

Cash-flow problems are not limited to those farm operations with high debt-to-asset ratios, but include a number of medium-sized farms with ratios of 40 percent or less. Grain farmers in particular are having a hard time holding their own.

Despite these problems, bankers appeared to be sticking with the vast majority of their customers; all but 4 percent of their farm borrowers were expected to be given operating loans this spring. This does not mean that a similar percentage of land will lie idle this year. Those who are refused loans may receive operating loans elsewhere, or the land may be farmed by someone else.

Land Prices Still Declining. According to the region's bankers, cropland and pastureland prices are down an average of 19 percent from a year ago. Land prices are expected to remain under pressure. Sixty percent of the bankers forecast declining land values during the next 12 months; the remainder anticipate fairly stable land prices. The depth to which land prices will ultimately dip depends in large degree on potential changes in farm legislation and the strength of the U.S. dollar.

At present, land prices are estimated to average about $1,400 per acre in Iowa, but considerable variation was evident. One-fourth of the Iowa bankers valued good cropland at $1,700 per acre or higher. In grain-producing areas of Minnesota, good cropland was pegged at $1,000 per acre. One-fourth of these Minnesota bankers said land prices were $1,300 per acre or higher. Nebraska figures were about $100 less than Minnesota's. Much of the pastureland in Montana, North Dakota and South Dakota fell in the $125 to $225 per acre range.

Failure Rate Increasing. The number of farmers going out of business is on the rise. Bankers estimated that 2.8 percent of their customers quit farming during the past 12 months. Their estimates ranged from a low of 1 percent or less for one-fourth of the agricultural bankers to a high of at least 5 percent for another one-fourth of the bankers. These figures are up from previous surveys. Figures for Wisconsin, Montana and western North Dakota were somewhat lower than average.

Heavy debt loads, depressed farm earnings and eroding asset values will continue to take their toll. Bankers estimate that another 4.5 percent of their customers may discontinue operations during the next year. The exit rate could remain at that level for several years. The failure rate could go even higher if federal policy is modified too abruptly toward a market-driven farm program.

FmHA Debt Adjustment Program. As currently structured, the Farmers Home Administration's debt adjustment

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Spring 1985 Regional Economic Survey

Conducted by:
Norwest Corporation, Economics Department
Norwest Banks, Financial Institutions Group

Credit Conditions

Unless otherwise indicated, figures show percentage of bankers falling in each of the categories - higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

1. *What is your current* ***loan-to-deposit*** *ratio?*

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	59.2%	50.0%	60.0%	69.0%
Minnesota	63.8	55.0	64.0	73.0
North Dakota	50.7	40.0	50.5	62.0
South Dakota	52.7	41.5	50.5	65.0
Montana	63.4	50.0	67.3	72.3
Wisconsin	61.0	58.0	64.0	67.5
Iowa	56.2	50.0	57.0	63.9
Nebraska	61.6	51.5	64.0	70.3
Twin Cities Banks	65.9	58.0	65.5	72.5
N. Minn-Wisc.	62.4	55.3	65.0	70.0

2. ***Loan-to-deposit ratio*** *higher or lower than desired?*

	Higher	Desired	Lower
All Ag Banks	18%	53%	30%
Minnesota	22	57	21
North Dakota	5	46	49
South Dakota	18	50	32
Montana	23	47	30
Wisconsin	6	50	44
Iowa	16	50	34
Nebraska	21	56	23
Twin Cities Banks	18	47	34
N. Minn.-Wisc.	10	48	41

3. ***Typical interest rate*** *charged for operating loans?*

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	13.9%	13.5%	14.0%	14.0%
Minnesota	13.9	13.5	14.0	14.0
North Dakota	13.8	13.5	13.8	14.0
South Dakota	14.0	13.5	14.0	14.5
Montana	14.0	13.7	14.0	14.5
Wisconsin	13.7	13.1	13.5	14.0
Iowa	13.9	13.5	13.9	14.0
Nebraska	13.8	13.5	13.8	14.0
Twin Cities Banks	13.3	12.5	13.5	14.0
N. Minn-Wisc.	13.8	13.0	14.0	14.5

4. *Percentage change in* ***loan volume*** *during the* ***past 12 months?***

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	2.0%	-1.0%	0.0%	6.0%
Minnesota	3.1	0.0	0.0	7.3
North Dakota	1.7	-2.0	0.0	5.5
South Dakota	0.7	-1.0	0.0	5.5
Montana	2.3	0.0	0.0	6.0
Wisconsin	2.2	-1.5	2.0	6.0
Iowa	2.0	-2.0	0.0	7.0
Nebraska	0.0	-7.0	0.0	5.8
Twin Cities Banks	11.2	5.0	11.7	20.0
N. Minn-Wisc.	4.2	0.0	4.0	10.0

5. ***Anticipated loan growth*** *during the* ***next 12 months*** *compared with past year?*

	Higher	Same	Lower
All Ag Banks	23%	58%	20%
Minnesota	22	60	18
North Dakota	36	52	12
South Dakota	32	47	21
Montana	33	47	20
Wisconsin	18	76	6
Iowa	15	63	22
Nebraska	15	57	28
Twin Cities Banks	37	50	13
N. Minn.-Wisc.	21	45	34

6. *Anticipated trend in* ***loan-to-deposit ratio*** *during next 12* ***months?***

	Higher	Same	Lower
All Ag Banks	35%	49%	16%
Minnesota	31	56	13
North Dakota	37	51	12
South Dakota	47	24	29
Montana	43	37	20
Wisconsin	24	76	0
Iowa	33	52	15
Nebraska	39	41	20
Twin Cities Banks	53	34	13
N. Minn.-Wisc.	31	48	21

7. *Percentage change in* ***bank deposits*** *during the past 12 months?*

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	3.6%	0.0%	3.2%	8.0%
Minnesota	3.9	0.0	4.0	8.3
North Dakota	6.0	2.2	6.0	10.0
South Dakota	4.0	0.0	5.0	7.0
Montana	2.7	0.0	2.0	5.0
Wisconsin	6.3	0.0	6.0	10.5
Iowa	1.7	0.0	0.0	5.5
Nebraska	3.2	0.0	3.2	7.8
Twin Cities Banks	10.0	8.0	10.0	14.0
N. Minn-Wisc.	5.2	0.0	5.0	10.0

8. ***Percentage*** *of total loan portfolio that is* ***farm loans?***

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	45.1%	25.0%	45.0%	65.0%
Minnesota	38.3	21.0	37.0	55.0
North Dakota	50.7	27.3	52.2	75.0
South Dakota	63.9	55.0	65.0	80.0
Montana	28.8	10.0	25.0	40.7
Wisconsin	34.1	14.0	30.0	55.0
Iowa	43.8	28.0	40.5	60.0
Nebraska	60.2	44.5	65.0	80.0
Twin Cities Banks	1.6	0.0	0.0	2.0
N. Minn-Wisc.	7.7	0.0	2.0	13.0

9a. Percentage of **farm loans** that is **nonperforming?**

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	5.4%	1.0%	3.0%	8.0%
Minnesota	6.0	1.0	3.0	9.5
North Dakota	4.5	1.0	2.0	5.0
South Dakota	5.9	1.0	3.0	10.0
Montana	5.1	0.0	4.5	8.5
Wisconsin	3.8	0.0	2.0	7.6
Iowa	5.4	1.0	4.0	8.3
Nebraska	5.2	1.0	3.0	8.0

9b. Percentage of total **loan portfolio** that is **nonperforming?**

	Survey Average	Response by Percentile 25th	50th	75th
Twin Cities Banks	1.2%	0.0%	1.0%	1.5%
N. Minn-Wisc.	2.5	0.3	1.6	3.0

Business Conditions

10a. Current **market value** of good **cropland?** (Dollars per acre)

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	911	500	900	1200
Minnesota	974	700	1000	1200
North Dakota	508	300	450	575
South Dakota	420	250	312	600
Montana	557	325	420	750
Wisconsin	725	600	700	800
Iowa	1378	1125	1400	1687
Nebraska	896	612	900	1200

10b. Current **market value** of good **pastureland?** (Dollars per acre)

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	330	185	275	400
Minnesota	395	250	300	500
North Dakota	180	125	150	212
South Dakota	188	150	182	225
Montana	207	100	150	250
Wisconsin	340	250	300	400
Iowa	500	350	400	650
Nebraska	252	145	200	350

11a. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	-18.9%	-25.0%	-20.0%	-10.0%
Minnesota	-20.6	-30.0	-20.0	-11.0
North Dakota	-14.8	-20.0	-15.0	-10.0
South Dakota	-15.8	-25.0	-13.5	-8.8
Montana	-11.9	-20.0	-10.0	-2.5
Wisconsin	-12.0	-22.5	-10.0	-5.0
Iowa	-22.6	-30.0	-25.0	-15.0
Nebraska	-19.7	-25.0	-20.0	-15.0

11b. Percentage **change** in **pastureland prices** from a year ago?

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	-19.0%	-25.0%	-20.0%	-10.0%
Minnesota	-18.2	-25.0	-17.5	-10.0
North Dakota	-15.7	-25.0	-15.0	-10.0
South Dakota	-17.9	-27.6	-15.0	-10.0
Montana	-10.9	-20.0	-10.0	0.0
Wisconsin	-11.2	-15.0	-10.0	-2.5
Iowa	-25.0	-30.0	-25.0	-20.0
Nebraska	-22.2	-30.0	-20.0	-15.0

12. Anticipated trend in **land prices** during **next 12 months?**

	Increase	Stable	Decrease
All Ag Banks	1%	39%	60%
Minnesota	1	42	57
North Dakota	0	37	63
South Dakota	0	37	63
Montana	0	40	60
Wisconsin	0	50	50
Iowa	3	34	63
Nebraska	0	43	57

13. Are **capital expenditures** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	16%	68%	16%
N. Minn.-Wisc.	7	41	52

14. Change expected in **capital outlays** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	32%	58%	11%
N. Minn.-Wisc.	10	59	31

15. Are **retail sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	30%	68%	3%
N. Minn.-Wisc.	25	50	25

16. Are **automobile sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	59%	38%	3%
N. Minn.-Wisc.	45	41	14

17. Change expected in **consumer spending** during **next six months?**

	Stronger	Same	Weaker
Twin Cities Banks	45%	47%	8%
N. Minn.-Wisc.	34	45	21

18. Are **housing starts** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	42%	53%	5%
N. Minn.-Wisc.	21	38	41

Survey *(continued from page 5)*

the past 12 months to within 4 percent of the pre-recession peak.

But after last year's strong rebound, the local economy appears to be catching its breath—overall nonfarm employment grew very little during the first quarter of 1985. Nevertheless, bankers were optimistic about the prospects for the balance of the year. They forecast continued strong consumer and business spending. About 70 percent of the bankers expect overall conditions to remain near last year's level, while another 24 percent anticipate continued improvement during the next six months.

Northern Minnesota/Wisconsin

Weakness Continues. One-third of the bankers characterize economic conditions as poor, 52 percent fair and only 14 percent good. Housing and capital expenditures remain in the doldrums; no improvement is forecast.

General retail sales are about the same as a year ago, while auto sales are a tad better. Very modest improvement, if any, is anticipated in consumer spending during the next six months.

One-fourth of the bankers expect overall economic conditions to be worse six months from now, while 62 percent anticipate little change. Bankers forecast a good season for the tourist industry, while mining activity is expected to remain at about 50 percent of the previous peak.

Credit Conditions

Agricultural Banks

Loan Demand Slows. After rebounding modestly in 1984, loan demand has leveled off again. Last year loan volume at country banks increased about 5 percent. This spring, overall loan volume averaged 2 percent more than a year ago; the median response indicated no change in loan volume. Twenty-five percent of the banks reported a decline of at least 1 percent, while another 25 percent had an increase of at least 6 percent. Little variation was evident among the individual states in the region.

Loan-to-deposit ratios averaged 59.2 percent, down seasonally from last fall, but up fractionally from a year ago. One-fourth of the banks had a ratio of 50 percent or less, while another one-fourth had a ratio of 69 percent or more. North Dakota and South Dakota had ratios well below average, while Minnesota and Montana were notably above average. Thirty percent of all banks surveyed viewed their loan-to-deposit ratios as lower than desired, down from more than one-half of the banks two years ago.

Deposits at agricultural banks increased an average of only 3.6 percent from a year ago, continuing a downward trend in deposit growth that began several years ago. One-fourth of the banks reported no growth in deposits, while another one-fourth experienced deposit growth of 8 percent or more.

Bankers think loan demand and deposit growth will remain weak. The typical interest rate charged for farm operating loans averaged 13.9 percent in April, down from 14.7 percent last October.

Nonperforming Farm Loans. Agricultural loans made up an average of 45 percent of all loans in the portfolios of the banks that responded to this survey. On average, 5.4 percent of these agricultural loans were nonperforming—either requiring interest concessions or not accruing any interest. One-fourth of the banks said that at least 8 percent of their farm loans were nonperforming, while another one-fourth said no more than 1 percent of their farm loans were nonperforming. Problem loans were somewhat lower than average in Wisconsin and North Dakota.

Twin Cities Banks

Robust Loan Demand. Total loans outstanding increased an average of 11.2 percent during the past 12 months, only slightly less than 1984's hefty gain of 14 percent. One-fourth of the banks reported increases of 5 percent or less, while another one-fourth experienced growth of 20 percent or more. Interest rates charged on operating loans averaged 13.3 percent in early April, down 1.4 points from last fall.

Deposits were up a healthy 10 percent from a year ago, but fell shy of the 16 percent spurt reported last April. Deposits were up 8 percent or less at one-fourth of the banks, while they rose 14 percent or more at another one-fourth of the banks.

The average loan-to-deposit ratio inched up about one-half of a point since October to 65.9 percent—the highest level in over two years. One-fourth of the banks had a ratio of 58 percent or less, while another one-fourth had a ratio of 72 percent or more. One-third of the bankers still viewed their ratios as lower than desired, down from two-thirds in 1983.

On average, 1.2 percent of all loans at Twin Cities banks were classified as nonperforming. One-fourth of the banks said that none of their loans were nonperforming.

Most Twin Cities bankers look for continued strong loan demand during the next 12 months. Higher loan-to-deposit ratios were also predicted.

Northern Minnesota/Wisconsin

Credit Weakness Persists. Loan volume is up an average of 4 percent from a year ago, a slight slackening from recent surveys. Despite this weak overall pattern, one-fourth of the banks in this region reported increases of 10 percent or more. The lower quartile, however, reported no increase and in some cases a decline. Bankers predict loan demand will slow even further during the next 12 months, a reflection of weak economic conditions.

On average, 2.5 percent of all loans at these banks were nonperforming. This figure was 0.3 percent or less at one-fourth of the banks. Agricultural loans are a relatively small portion of total loan volume at banks in this part of the region. However, agricultural loans accounted for at least 13 percent of all loans at one-fourth of these banks.

The typical interest rate charged for operating loans averaged 13.8 percent in early April, down 1 point from October. Deposit growth averaged 5 percent during the past 12 months, down from last October's figure of 8.6 percent.

The average loan-to-deposit ratio increased 0.7 points during the past six months to 62.4 percent, the highest level since October 1981. Yet, 41 percent of the bankers viewed their ratio as lower than desired. Twenty-five percent of the banks had a ratio of 55 percent or less, while another 25 percent had a ratio of 70 percent or more.

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19. Overall **economic conditions** in your area at the **present time**?

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	0%	7%	40%	43%	10%
Minnesota	1	9	44	38	8
North Dakota	0	8	39	48	5
South Dakota	0	5	39	42	13
Montana	0	3	50	33	13
Wisconsin	0	24	59	18	0
Iowa	0	1	31	58	10
Nebraska	0	5	34	39	21
Twin Cities Banks	8	74	18	0	0
N. Minn.-Wisc.	0	14	52	31	3

20. Anticipated trend in **economic conditions** during **next six months?**

	Better	Same	Worse
All Ag Banks	4%	61%	35%
Minnesota	4	60	36
North Dakota	3	57	39
South Dakota	5	51	43
Montana	13	63	23
Wisconsin	6	76	18
Iowa	4	63	33
Nebraska	2	62	36
Twin Cities Banks	24	71	5
N. Minn.-Wisc.	14	62	24

21. Percentage of farm borrowers having **negative cash flow** in 1984?

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	34.4%	10.0%	25.0%	50.0%
Minnesota	30.4	10.0	25.0	50.0
North Dakota	24.4	10.0	20.0	31.5
South Dakota	34.7	15.0	25.0	50.0
Montana	41.4	11.5	40.0	75.0
Wisconsin	19.1	10.0	15.0	20.0
Iowa	43.3	15.0	40.0	70.0
Nebraska	40.0	20.0	36.0	57.5

22. Percentage of farm customers that went **out of business** during the **past 12 months?**

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	2.8%	1.0%	2.0%	5.0%
Minnesota	2.6	1.0	2.0	4.0
North Dakota	2.5	1.0	2.0	3.0
South Dakota	3.1	0.3	2.0	4.8
Montana	2.1	0.0	1.0	2.3
Wisconsin	1.8	0.0	1.0	3.0
Iowa	3.2	1.0	2.0	5.0
Nebraska	3.2	1.0	2.1	5.0

23. Percentage of farm customers likely to **discontinue operating** during **next 12 months?**

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	4.5%	2.0%	4.0%	5.0%
Minnesota	4.4	2.0	3.0	5.0
North Dakota	4.2	2.0	3.0	5.0
South Dakota	4.2	1.0	4.0	5.0
Montana	3.5	0.0	2.0	5.0
Wisconsin	3.2	1.0	2.5	5.0
Iowa	5.0	2.0	5.0	8.0
Nebraska	5.4	2.0	5.0	5.0

24. Percentage of farm borrowers **not given operating loans** this spring?

	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	4.0%	1.0%	2.0%	5.0%
Minnesota	3.8	1.0	2.0	5.0
North Dakota	2.8	0.0	2.0	5.0
South Dakota	5.2	1.0	3.0	5.0
Montana	4.9	0.0	1.5	5.0
Wisconsin	3.1	1.0	2.0	5.0
Iowa	4.2	1.0	3.5	5.0
Nebraska	4.7	1.0	2.0	5.0

25. Percentage of farm borrowers likely to qualify for **FmHA guarantees?**

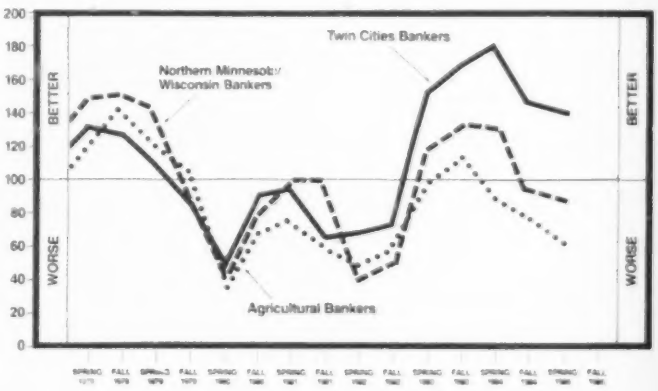
	Survey Average	Response by Percentile 25th	50th	75th
All Ag Banks	4.6%	0.0%	2.0%	5.0%
Minnesota	5.5	0.0	2.0	7.4
North Dakota	4.6	0.0	1.0	5.0
South Dakota	6.6	0.0	2.0	10.0
Montana	4.8	0.0	0.0	10.0
Wisconsin	1.6	0.0	0.5	2.0
Iowa	3.5	0.0	2.0	5.0
Nebraska	3.6	0.0	1.0	5.0

26. What modifications would you make in price-support **loan rates** and **target prices?**

	Lower to Free-Market	Decrease Modestly	No Change	Increase Supports
All Ag Banks	15%	22%	31%	32%
Minnesota	15	23	35	37
North Dakota	11	24	45	20
South Dakota	9	27	24	39
Montana	26	30	41	4
Wisconsin	29	35	18	18
Iowa	16	18	31	35
Nebraska	16	14	34	36

UPPER MIDWEST CONFIDENCE INDEX

Composite index of current conditions and bankers' appraisal of economic prospects during the next six months



Banker's Views: *Farm Policy and Economic Prospects*

Iowa - *"U.S. farm policy will need to stay at current levels with some emphasis on idling more land."*

"Limit the number of bushels produced on the farm and support this amount of production."

"Restrict our production base to a size that would supply our domestic needs."

"We cannot compete world-wide with a 'free-market' policy when ours is the only country using that policy."

"It may be the best in the long run to move quickly and adjust the market rather than drag it out over time."

Minnesota - *"We are very concerned about dairy prices; some cutting can be absorbed but not too much."*

"It is alarming to hear how much our customers are increasing their dairy herds."

"With land prices dropping, agriculture does not have a safety net of collateral values to get farmers through a poor year."

"I like market-oriented policy, but feel it's unattainable. Farmers will need some assistance in transition."

"Until the federal deficit, interest rates and value of the dollar are brought under control, free-market economics will not work in agriculture."

"Maintain current policies until deficit and interest rates show improvement—perhaps (tie) adjustment in ag policy to these factors."

Montana - *"Cattle look strong if we get moisture to bring grass back from drought conditions."*

"Government intervention causes more long term problems and dislocation than it solves."

"We need a long term ag policy. Not one that changes with each administration."

Nebraska - *"Commodity prices must change from current levels. Without any changes, we will see between 30 and 50 percent of our farmers going out of business."*

"We feel that the farm economy in this area is going to be tough through 1989-90."

"Interest rate relief would help. Need federal corporation like proposed Agricultural Conservation Corporation to stabilize land values."

North Dakota - *"We need to get to a market-oriented grain market, but in gradual steps after deficit reduction, devaluation of the dollar and farm economy turnaround."*

"Reduction in supports at this time will be disastrous for our area."

"Our area raises a lot of potatoes, sugar beets, edible beans; these crops have been profitable."

"We are concerned about the next two or three years when we anticipate problems for those who are getting by at present time."

South Dakota - *"Our area rather fortunate; most farmers showing slight gains through 1984."*

"Outlook is bleak for grain producers. This year will see further erosion of land values and a decrease of from 10-20% of operators."

"Very poor in our area, not too much chance for improvement."

Wisconsin - *"The percentage of farmers in deep trouble now is small, but if milk prices continue to fall to $10.00 per cwt., the percentage in trouble will approach 30 to 40 percent."*

"I would put the milk program on a base and surplus formula—paying the farmer well for a base poundage; very little for the excess."

"Put a production limit on support programs at a level equal to production on a modest sized family farm."

Twin Cities - *"(Outlook) depends on how Congress addresses budget deficits. A strong approach to reduce deficits will foster confidence."*

"Very good outlook."

"Steady to improving (outlook)."

Northern Minnesota/Wisconsin - *"We look for good tourist business in '85."*

"Mining and related industries should be stable, but still less than 50 percent of peak capacity."

"(Outlook) slightly better than it is now, but still tough."

Survey *(continued from page 1)*

program (DAP) will only help a limited number of farmers. Bankers estimate that 5 percent of their farm borrowers will qualify for DAP loan guarantees. Even with some interest-rate concession, some farm operations still won't have a positive cash flow. Banks can only mark down interest rates so far. To assist more producers, a government interest-rate subsidy may be required. Bankers also cite a number of administrative factors that are limiting the use of the FmHA guarantee program in certain portions of the region.

Farm Policy Views Differ. About 15 percent of the bankers surveyed favored lowering price-support loan rates and target prices to free-market levels. Another 22 percent advocated a modest reduction in support levels. On the other hand, nearly one-third of the bankers called for increases in government supports for farmers, even if that meant idling more land. The remaining 31 percent favored no change in price supports, at least for the moment. A larger than average number of Montana and Wisconsin bankers favored a move towards a free-market farm policy, while nearly half of the bankers in eastern South Dakota and the grain-producing areas of Minnesota advocated increasing price supports.

Some bankers advocated a gradual transition to a market-oriented farm program, but only after the farm economy improved. Others cited lowering the federal government deficit as the key to a healthier agricultural economy.

Twin Cities Economy

Expansion Continues. Most Twin Cities bankers rated local economic conditions good to very good. Auto sales, general retail sales and housing starts are up from last year's favorable level. However, capital outlays by businesses show less change.

As of March 1985, Twin Cities nonfarm wage and salary employment was 7.5 percent above the peak reached before the 1981-82 recession. This was a couple of percentage points better than the national recovery.

Twin Cities manufacturing jobs are at a record level, while the nation's manufacturing sector is 7 percent shy of the previous peak. Local construction employment shot up 18 percent during

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